

FISCAL NOTE

Bill #: HB638

Title: Research and Development tax credit

Primary

Sponsor: Roger Somerville

Status: As Introduced

Sponsor signature	Date	Dave Lewis, Budget Director	Date
-------------------	------	-----------------------------	------

Fiscal Summary

	<u>FY2000 Difference</u>	<u>FY2001 Difference</u>
Expenditures:		
General Fund	12,000	2,000
Revenue:		
General Fund	(105,000)	(105,000)
Net Impact on General Fund Balance:	(117,000)	(107,000)

<u>Yes</u>	<u>No</u>		<u>Yes</u>	<u>No</u>	
	X	Significant Local Gov. Impact	X		Technical Concerns
	X	Included in the Executive Budget		X	Significant Long-Term Impacts

Fiscal Analysis

ASSUMPTIONS:

1. This bill would apply retroactively to tax years beginning after December 31, 1998 (See technical note 1).
2. The credit provided for in this proposal is based on the research credit provided for in Section 41 of the Internal revenue Code, 26 U.S.C. 41.
3. In tax year 1996, tax credits for research expenses totaled approximately \$2.1 billion in the United States (U.S. Joint Committee on Taxation).
4. The credit at the Federal level is 20% of the excess of qualified research expenses for the tax year over a base amount. The credit in this bill is 5% of the excess of qualified research expenses or one quarter of the federal amount.
5. Based upon the ratio of Montana's corporate taxable income to federal income subject to taxation, and upon the ratio of Montana's effective tax rate to the federal effective tax rate, it is estimated that the credit in Montana would total \$420,000 in FY2000 and FY2001 if it were identical to the federal credit. Because this bill proposes a credit equal to one-fourth of that at the federal level, it is estimated that the credit would total \$105,000 ($\$420,000 * 0.25$) in each fiscal year.

(continued)

6. Administrative expenses are estimated to be \$12,000 in FY2000 and \$2,000 in FY2001 for computer programming and operating expenses.

<u>FISCAL IMPACT:</u>	<u>FY2000</u>	<u>FY2001</u>
	<u>Difference</u>	<u>Difference</u>
<u>Expenditures:</u>		
Operating Expenses	12,000	2,000
<u>Funding:</u>		
General Fund (01)	12,000	2,000
<u>Revenues:</u>		
General Fund (01)	(105,000)	(105,000)
<u>Net Impact to Fund Balance (Revenue minus Expenditure):</u>		
General Fund (01)	(117,000)	(107,000)

TECHNICAL NOTES:

1. The federal tax credit is scheduled to end July 1, 1999. Therefore, it should be indicated in that the proposed bill is tied to the federal bill as it reads on or before July 1, 1999.